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SIPDIS

SENSITIVE

STATE FOR EUR/NCE TARA ERATH AND MICHAEL SESSUMS
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TREASURY FOR OASIA MATTHEW GAERTNER
DOE FOR IA-42 BOB PRICE AND ED ROSSI

E.O. 12958: N/A
TAGS: ENRG EFIN EPET ECON PREL PL
SUBJECT: Polish Finance Ministry Hopes Higher Taxes Excise
Gray Market for Fuel and Cigarettes

Ref: Warsaw 2252

(U) This cable is sensitive, but unclassified, and NOT for Internet distribution.

¶1. (U) On June 1, the Polish Ministry of Finance announced that it would increase the excise tax on imported heating oil and liquefied gas used for cars (autogas) by mid-June. Under the proposal, the excise tax on heating oil would be raised from 233 Zloty ($68.70) per 1000 liters to 1028 Zloty ($303). Finance said the move is necessary to close a loophole under which criminals currently import diesel or gasoline from Russia and Belarus at the lower rate, and sell it to gas stations, splitting the difference. At the end of May, the Finance Ministry submitted proposed amendments to parliament to tighten enforcement measures against excise tax evasion for cigarettes, including introducing measures requiring the destruction of seized cigarettes. Although the main purpose of the changes on oil excise tax are not fiscal, Polish papers estimate the changes would raise 1.4 billion Zloty ($413 million) in revenue in 2005.

¶2. (SBU) Oil retailers in Poland, including several foreign companies, have long complained that `fuel mafias' are taking a significant bite out of their business. The Polish Organization of Oil Industry and Trade (Pophin, made up of the largest oil retailers active in Poland) estimates that 15-20% of the fuel market is made up of these illegal imports, while the gray share of the autogas market is even larger, ranging between 35-50%. Shell's country manager recently observed that the revenue for an individual gas station owner would be considerable, "enough to retire to the Bahamas." Legitimate companies are indifferent to the tax increase, believing it will have some effect if implemented in closing the loophole. The real problem, in the companies' view, is the insufficient number of Polish customs inspectors on the eastern border, and the relatively light judicial penalties for those few individuals who have been caught. Shell's manager contrasted the lax customs oversight on the eastern border with overly tight regulations on oil product imports from Germany, where every truck from its refinery in Germany crossing into Poland is emptied and inspected.

¶3. (U) Opposition parties in parliament immediately protested that the proposed increase in excise on heating oil would affect disproportionately poor people and those living in rural areas (the tax change would more than double the total price for heating oil). Opposition parties suggested they would call for a vote of no confidence in Finance Minister Gronicki if his ministry implemented this tax increase. Members of the ruling SLD party indicated they might join opposition parties in voting against Gronicki. Recognizing the strength of political opposition, Prime Minister Belka announced on June 3 that Finance would hold off until August 1 on introducing any changes until the government can come up with a program to protect "ordinary" citizens from the effects of the increase cost of heating oil. Belka underscored the importance of closing the tax loopholes, however, that allow fuel mafias to operate.

¶4. (SBU) Comment: For the last three years, the Polish Government has estimated that these fuel mafias were the greatest source of money laundering and tax evasion in Poland. The GOP has been concerned that a number of the individuals involved have links to organized crime. As the GOP has stepped up enforcement of fuel regulations, Finance has seen these criminal organizations migrate to smuggling cigarettes (ref a). Since assuming office, closing these loopholes has been one of Finance Minister Gronicki's top priorities, both to recapture lost excise taxes and limit the scope for criminal activity. Election-year politics may water down Finance's latest efforts, especially because of the politically ham-handed roll-out of the policy.

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